



Investment Office

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August 14, 2006

AGENDA ITEM: 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Selection of International REIT Managers
- II. PROGRAM:** Real Estate Non-Core
- III. RECOMMENDATION:** Approve the following managers for inclusion in the international Public Real Estate Equity Securities (PREES) Spring-Fed Pool: Citigroup Property Investors, European Investors, Morgan Stanley Investment Management, PRESIMA and RREEF America; subject to satisfactory due diligence completion and satisfactory agreement negotiations.

IV. ANALYSIS:

Background

At its September 2005 meeting, Policy Subcommittee approved the issuance of a Request for Proposal (RFP) with a Spring-Fed Pool feature for international PREES managers. In addition, this initiative was mentioned in Real Estate's 2005-06 Annual Plan presented to the Investment Committee at the November 2005 meeting. At July 27, 2006, the portfolio holds approximately \$1.3 billion in international PREES. Staff will determine along with Pension Consulting Alliance (PCA), the amounts and pace of allocation to selected managers.

The RFP was released on March 16, 2006. It was advertised in the California State Contracts Register and the Pensions & Investments Publication and was also available for download from the CalPERS website. In addition, notification of

RFP was sent to firms identified by staff and PCA. The Evaluation Process outlined in Section VII of the RFP states that after the Preliminary Review was completed by the Contracts Staff, Evaluation Committee would conduct the Proposal Evaluation, which includes a Technical Proposal, Staff Interview, Fee Proposal and Optional Interview with the Investment Committee. The Evaluation Committee was composed of five (5) staff. One (1) consultant from PCA participated in an advisory capacity only.

Process & Scoring

Staff received twenty-one proposals (21) for the international PREES RFP. However, three (3) were disqualified because they failed to meet specified requirements set forth in the RFP guidelines. The Evaluation Committee then, as required by the RFP, assigned a maximum score of up to 100 points for the RFP proposals. The scoring categories included:

- Organization & Investment Professionals (20 pts.)
- Investment Process and Philosophy (20 pts.)
- Risk Management (10 pts.)
- Performance Information (15 pts.)
- International PREES/ Portfolio Information (7 pts.)
- Client Base and Services (10 pts.)
- Resources / Trading (5 pts.)
- Operational Capabilities (5 pts.)
- Internal Controls (5 pts.)
- Research (3 pts.)

From the eighteen (18) proposals reviewed, ten (10) firms were selected for interviews. The Evaluation Committee reviewed and scored interviews from June 6, 2006 through June 13, 2006. The Evaluation Committee then, as required by the RFP, assigned a maximum score of up to 50 points for the Interviews. The scoring categories included:

- Organization and Background (10 pts.)
- Professional Staff (10 pts.)
- Research and Computer Capabilities (10 pts.)
- Performance Evaluation (10 pts.)
- Strategy and Investment (10 pts.)

From the ten (10) selected for Interviews, five (5) were further selected for site visits. The Evaluation Committee selected the five (5) based on the Interview Scores. Three (3) members from the Evaluation Committee and one (1) member of PCA conducted site visits from July 6, 2006 through July 12, 2006. The

Evaluation Committee then, as required by the RFP, assigned a satisfactory/unsatisfactory rating for the Site Visit.

From the five (5) selected for site visits, the Evaluation Committee reviewed and scored the Fee Structures that were provided by the proposers in a sealed envelope. The Evaluation Committee then, as required by the RFP, assigned a maximum score of up to 80 points for the Fee Structure.

Recommendation and Investment Committee Interview Option

Staff is recommending approval of five managers, subject to satisfactory due diligence completion and satisfactory agreement negotiations. The Staff Evaluation Committee recommends that the Investment Committee select the following managers listed alphabetically based on their performance track record, professional staff and organization, and ability to implement research and strategies necessary for investment:

- **Citigroup Property Investors**
- **European Investors Incorporated**
- **Morgan Stanley Investment Management**
- **PRESIMA Inc.**
- **RREEF America LLC**

Please see **Attachment 1** for a profile of each proposed firm.

The RFP states that the Investment Committee may interview the Finalists. Staff seeks the direction of the Board at this Investment Committee meeting to determine if the Investment Committee would like to interview the Finalists recommended by Staff, or if the Committee approves the selection of the Finalists at this meeting today and allows staff to proceed towards contract negotiations.

Funding & Conclusion

Staff may seek to transfer most of its existing indexed international portfolio to the selected managers as part of the \$1 billion allocation. Staff views the international PREES market as attractive and wants to move quickly. PCA's concurrence letter, which endorses Staff's recommendation, is included as **Attachment 2**.

V. STRATEGIC PLAN:

Goal IX to achieve long-term, sustainable, risk adjusted returns by thinking creatively with respect to new investment opportunities and ensuring the sustainability of the portfolio returns.

VI. RESULTS/COSTS:

An allocation to these managers with CalPERS should result in investments in the international PREES portfolio at attractive risk-adjusted returns. Management and incentive fees are competitive with the market.

Jane Delfendahl
Investment Officer

Judy Alexander
Portfolio Manager

Alfonso Fernandez
Interim Senior Investment Officer

Russell Read
Chief Investment Officer